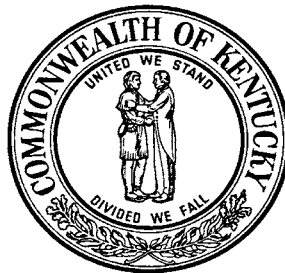


**REPORT OF THE AUDIT OF THE
LAUREL COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES AND
SHERIFF'S SETTLEMENT - 2001 UNMINED COAL TAXES**

July 25, 2002



**EDWARD B. HATCHETT, JR.
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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Jimmy Williams, Laurel County Judge/Executive
Honorable Gene Hollon, Laurel County Sheriff
Members of the Laurel County Fiscal Court

The enclosed report prepared by Berger & Ross, PLLC, Certified Public Accountants, presents the Laurel County Sheriff's Settlement - 2001 Taxes and 2001 Unmined Coal Taxes.

We engaged Berger & Ross, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Ross, PLLC, evaluated the Laurel County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



**AUDIT EXAMINATION OF THE
LAUREL COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES AND
SHERIFF'S SETTLEMENT - 2001 UNMINED COAL TAXES**

July 25, 2002

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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LAUREL COUNTY SHERIFF'S SETTLEMENT - 2001 TAXES AND 2001 UNMINED COAL TAXES

July 25, 2002

Berger & Ross, PLLC has completed the audit of the Sheriff's Settlement - 2001 Taxes and the Sheriff's Settlement - 2001 Unmined Coal Taxes for Laurel County Sheriff as of July 25, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

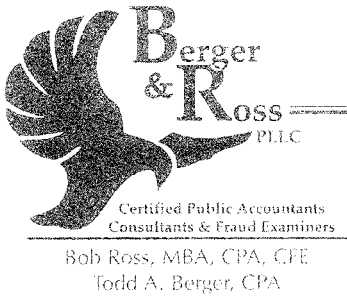
Financial Condition:

Sheriff collected net taxes of \$11,356,296 for the districts for 2001 taxes. Sheriff distributed taxes of \$11,351,266 to the districts for 2001 Taxes. Taxes of \$209 are due to the districts from the Sheriff and refunds of \$685 are due to the Sheriff from the taxing districts.

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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Association of Certified Fraud Examiners
Association of Government Auditors
County Auditors Institute
Kentucky Association of Sheriffs
National Association of Tax Examiners
Government Auditors Association

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Jimmy Williams, Laurel County Judge/Executive
Honorable Gene Hollon, Laurel County Sheriff
Members of the Laurel County Fiscal Court

Independent Auditor's Report

We have audited the Laurel County Sheriff's Settlement - 2001 Taxes and the Sheriff's Settlement - 2001 Unmined Coal Taxes as of July 25, 2002. These tax settlements are the responsibility of the Laurel County Sheriff. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the Laurel County Sheriff's taxes charged, credited, and paid as of July 25, 2002, in conformity with the modified cash basis of accounting.

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Jimmy Williams, Laurel County Judge/Executive

Honorable Gene Hollon, Laurel County Sheriff

Members of the Laurel County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated October 23, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", with a long horizontal flourish extending to the right.

Berger & Ross, PLLC

Audit fieldwork completed -
October 23, 2002

LAUREL COUNTY
GENE HOLLON, SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES

July 25, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate and Tangible	\$ 1,233,327	\$ 1,581,117	\$ 6,130,567	\$ 2,636,057
Intangible	-	-	-	260,355
Fire Acreage	1,742	-	-	-
Gas	106	129	525	184
Total Per Sheriff's Official Receipt	\$ 1,235,175	\$ 1,581,246	\$ 6,131,092	\$ 2,896,596
<u>Other Taxes and Charges</u>				
Correcting Erroneous Assessments	\$ 1,174	\$ 1,490	\$ 5,841	\$ 3,859
Franchise Corporation	87,624	111,753	433,470	-
Penalties & Interest	10,881	13,868	54,018	21,267
Gross Chargeable to Sheriff	\$ 1,334,854	\$ 1,708,357	\$ 6,624,421	\$ 2,921,722
<u>Credits</u>				
Exonerations	\$ 7,197	\$ 9,125	\$ 35,733	\$ 12,713
Delinquents	64,162	81,233	318,346	120,668
Discounts	16,620	21,283	82,508	41,637
Total Credits	\$ 87,979	\$ 111,641	\$ 436,587	\$ 175,018
Net Tax Yield	\$ 1,246,875	\$ 1,596,716	\$ 6,187,834	\$ 2,746,704
Less: Commissions*	53,280	66,214	185,868	117,022
Taxes Due Districts	\$ 1,193,595	\$ 1,530,502	\$ 6,001,966	\$ 2,629,682
Taxes Paid	1,193,064	1,529,611	6,185,263	2,628,645
Add: Penalty (KRS 46.990)	-	-	-	279
Less: Refunds (Current & Prior Years)	624	779	3,060	1,322
Less: Commission Refunds From School	-	-	(185,868)	-
Taxes Due Districts (or Refund Due Sheriff) as of Completion of Fieldwork	\$ (93)	\$ 112	\$ (489)	\$ (6)

*, **, and *** See Page 4

LAUREL COUNTY
 GENE HOLLON, SHERIFF
 SHERIFF'S SETTLEMENT - 2001 TAXES
 July 25, 2002
 (Continued)

*Commissions:

10% on \$10,000
 4.25% on \$5,529,627
 3.01% on \$6,112,123
 2.5% on \$75,711
 1% on \$50,668

**Special Taxing Districts:

Library District	\$	(65)
Health District		(30)
Extension Service District		62
Soil Conservation District		(2)
Bush Fire District		<u>147</u>
Due Districts or (Refunds Due Sheriff)	\$	<u><u>112</u></u>

***School Districts:

Common School	\$	<u>(489)</u>
Due School Districts or (Refunds Due Sheriff)	\$	<u><u>(489)</u></u>

LAUREL COUNTY
 GENE HOLLON, SHERIFF
SHERIFF'S SETTLEMENT - 2001 UNMINED COAL TAXES

July 25, 2002

	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
<u>Charges</u>				
Sheriff's Official Receipt for Unmined Coal	\$ 64	\$ 79	\$ 320	\$ 112
Gross Chargeable to Sheriff	\$ 64	\$ 79	\$ 320	\$ 112
<u>Credits</u>				
Discounts	\$ -	\$ 1	\$ 2	\$ -
Total Credits	\$ -	\$ 1	\$ 2	\$ -
Net Tax Yield	\$ 64	\$ 78	\$ 318	\$ 112
Less: Commissions*	3	3	10	5
Taxes Due Districts	\$ 61	\$ 75	\$ 308	\$ 107
Taxes Paid	61	75	318	107
Less: Commission Refunds From School	-	-	(10)	-
Taxes Due Districts (or Refund Due Sheriff) as of Completion of Fieldwork	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

*Commissions:

4.25% on \$254

3.01% on \$318

The accompanying notes are an integral part of these financial statements.

LAUREL COUNTY
GENE HOLLON, SHERIFF
NOTES TO FINANCIAL STATEMENTS

July 25, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statements have been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statements. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of November 5, 2001, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

LAUREL COUNTY
GENE HOLLON, SHERIFF
NOTES TO FINANCIAL STATEMENTS
July 25, 2002
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 17, 2001 through May 10, 2002.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2001. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 26, 2001 through May 10, 2002.

Note 4. Interest Income

The Laurel County Sheriff earned \$11,904 as interest income on 2001 taxes. As of October 23, 2002, the Sheriff is due from East Bernstadt \$24 in interest, and the Sheriff owes the Common School \$393 in interest and his fee account \$334 in interest for a total of \$727.

Note 5. Sheriff's 10% Add-On Fee

The Laurel County Sheriff collected \$83,654 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Late Fees

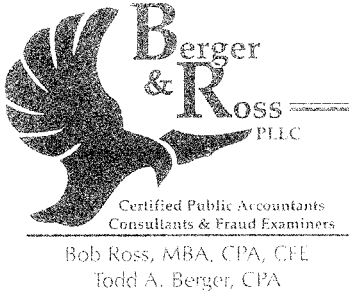
The Laurel County Sheriff collected \$12,359 of advertising costs and late fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the late fees were used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplainable Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2001 taxes, the Sheriff had \$4,493 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Chartered Accountants Association
National Association of Accountants
National Association of Tax Professionals
Government Auditing Standards Association

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Members of the Laurel County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the Laurel County Sheriff's Settlement - 2001 Taxes and the Sheriff's Settlement - 2001 Unmined Coal Taxes as of July 25, 2002, and have issued our report thereon dated October 23, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Laurel County Sheriff's Settlement - 2001 Taxes and the Sheriff's Settlement - 2001 Unmined Coal Taxes as of July 25, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Laurel County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

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Berger & Ross, PLLC

Audit fieldwork completed -
October 23, 2002

